Ellipsiz Ltd and its Subsidiaries
Registration Number: 199408329R

Second Quarter Financial Statements and Dividend Announcement

Financial period ended

31 December 2013

Review and Commentary

(A) A review of the performance of the group, to the extent necessary for a reasonable understanding of the group's business. It must include a discussion of the following:-

(i) any significant factors that affected the turnover, costs, and earnings of the group for the current financial period reported on, including (where applicable) seasonal or cyclical factors;
(ii) any material factors that affected the cash flow, working capital, assets or liabilities of the group during the current financial period reported on; and
(iii) any factors leading to material changes in contributions to turnover and earnings by the business or geographical segments.

The following discussion is based on and should be read in conjunction with, the consolidated financial statements of Ellipsiz Ltd and its subsidiaries (the Group), including the notes thereto.

Results of Operations

Revenue and gross profits

For the six months ended 31 December 2013 (1HFY2014), the Group had revenue of $74.1 million, a growth of 13% when compared with the corresponding period of last financial year. Q2 consolidated revenue was an improvement of 11% from $36.1 million in 2QFY2013 (3 months ended 31 December 2012) to $40.0 million in 2QFY2014 (3 months ended 31 December 2013).

The growth in revenue was mainly contributed by the newly acquired business in our Probe Card solutions (PCS). Since the completion of the acquisition transaction on 30 August 2013, the business segment has recorded four-month revenue from this newly acquired business and thus led to the 54% increase in revenue for our PCS activities in 1HFY2014. Excluding the contribution from this newly acquired business, PCS had growth of approximately 4% from its original activities. The significant growth in revenue from Japan and Taiwan was from the newly acquired business.

Our Distribution and Services solutions (DSS) reported a marginal drop of 2% in revenue for 1HFY2014.

In line with the growth in revenue, gross profit attained in 1HFY2014 improved by 17% to $17.7 million. Since the growth is from PCS that generally has higher gross profit margin than the average margin of the Group, the consolidated gross profit margin for 1HFY2014 improved by 1% to 24%.

Other income

Other income increased significantly from $89K in 1HFY2013 to $12.1 million in 1HFY2014. The recording of negative goodwill of $11.5 million from its acquisition of businesses, dividend income of $0.2 million from its financial investment and exchange gain of $0.1 million were the key reasons for the increase in other income. Details of other income is disclosed in note 9 to the financial statements.

Operating expenses

Total operating expenses increased by 53% from $14.2 million to $21.8 million. Included in other expenses was acquisition cost of $1.1 million and post-acquisition integration and restructuring costs of $5.2 million relating to the acquisition of businesses. Excluding the one-time cost, operating expenses increased by 9%, mainly due to the additional expenses incurred by the newly acquired operations.

Net finance income / (expenses)

Due to the lower finance income and the increase in finance expenses by 22% in 1HFY2014, the Group had a net finance expenses of $4,000 instead of finance income of $104,000 a year ago.

Share of results of associates and joint ventures

The Group recorded profits of $452,000 from share of results from associates and had share of losses of $114,000 from its joint ventures for 1HFY2014.

Income taxes

In 1HFY2014, the Group recorded tax expense of $0.7 million, mainly for the tax expense in the current financial period and an adjustment to the under provision of deferred tax expenses in prior year.

Net profit attributable to Owners of the Company

The Group had net profits after taxes and non-controlling interests of $7.5 million for 1HFY2014, an improvement over 1HFY2013's profits of $1.5 million. In 1HFY2014, the Group recorded one-time negative goodwill of $11.5 million as well as post-acquisition integration and restructuring costs of $5.2 million and acquisition cost of $1.1 million. Excluding the one-time income and expenses, the Group had profit of $2.3 million from its operating activities, an increase of 54% over 1HFY2013's profits.

Financial Conditions

Non-current assets

The non-current assets increased by 10% from $65.9 million to $72.5 million. Mainly attributing to the business acquisition during the period, property, plant and equipment and intangible assets increased by 96% and 3% respectively. A portion of trade and other receivables as at 30 June 2013 had been re-classified as current trade and other receivables as it becomes receivable within 12 months from 31 December 2013. This led to the 68% drop in non-current trade and other receivables. Due to the increase in market value of the financial assets during the quarter, the financial assets increased by 22% to $8.5 million.

Current assets

Total current asset as at 31 December 2013 was $89.1 million, an increase of 20% from $74.5 million as at 30 June 2013. Project-in-progress increased by 337% as at 31 December 2013 due to the higher outstanding projects as at balance sheet date. Inventory increased resulting primarily from the acquisition of businesses from TCL, by 67% to $12.1 million. Trade and other receivables increased by 17% as a result of the classification of certain non-current receivables to current mentioned earlier and the additions from the newly acquired businesses. Due to collection of intercompany balances, amount due from related parties decreased by 37%.

Current liabilities and non-current liabilities

Total liabilities as at 31 December 2013 stood at $48.2 million, a 42% increase from $33.9 million as at 30 June 2013. The higher interest-bearing borrowings and the additions arising from the acquisition to trade and other payables as well as provisions led to the increase in total liabilities.

Non-controlling interests

The increase in the non-controlling interests was due to the share of profits during the financial period.

Liquidity and Capital Reserves

The net cash inflow of the Group for financial period ended 31 December 2013 was $1.7 million. This can be accounted by:

(a) cash inflow of $0.3 million for operating activities;
(b) cash outflow of $1.4 million for investing activities; and
(c) cash inflow of $2.8 million for financing activities.

The positive results in the period, partially offset by the net negative cash movement in working capital, led to the cash inflow from operating activities of $0.3 million in 1HFY2014. The increases in project-in-progress and inventory were the main causes for the net negative cash movement in working capital.

Purchase of property, plant and equipment and payment of acquisition costs incurred, partially offset by the cash inflow from acquisition of businesses and dividend received from other financial asset, led to the net cash outflow of $1.4 million from investing activities.

Net increase in interest-bearing borrowings, partially offset by the payment of dividend during the period, led to the net cash inflow from financing activities.

As at 31 December 2013, the Group's cash and cash equivalents position (including fixed deposits held as securities) was $33.4 million.

(B) Where a forecast, a prospect statement, has been previously disclosed to shareholders, any variance between it and the actual results.

Not applicable.

(C) A commentary at the date of the announcement of the significant trends and competitive conditions of the industry in which the group operates and any known factors or events that may affect the group in the next reporting period and the next 12 months.

The Group's operating and performance prospects continued to be dependent on the macroeconomic conditions, market demand for electronics devices as well as capital spending at our customers. While the trend towards low cost solution exerts pressure on pricing, competition is expected to grow keener with the on-going industry-wide consolidation. Amidst the economic and structural challenges, we remained committed to pursue opportunities and leveraging on competitive offerings to sustain our growth and performance.